

October 10, 2003

Honorable Mayor and Members
of the City Council
City of Garden City
6000 Middlebelt Road
Garden City, MI 48035

Dear Council Members:

We have recently completed the audit of the financial statements of the City of Garden City for the year ended June 30, 2003. In addition to our audit report, we offer the following comments and recommendations for your consideration:

Government Accounting Standards Board Statement 34

As previously communicated to you, Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a different look to the audited financial statements this year. Although there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the City's overall financial position and results of operations.
- Government-wide Financial Statements: The statements now adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City's financial position from a current and longer term perspective including its capital assets and long term debt.
- Budget Comparison: A financial statement reader will now be able to not only view the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original adopted budget.

The GASB believes that this new model will provide a more complete picture of the financial position of the City. We would be happy to schedule a time to provide a more detailed overview about this new reporting model so that you can obtain the greatest user benefit from it.

GENERAL OVERVIEW

For the year ended June 30, 2003, the City's General Fund fund balance decreased by approximately \$416,000. Overall, total General Fund revenue remained fairly constant as compared to the prior fiscal year. The City's General Fund expenditures increased approximately 6% from 2002. The majority of the increase in costs was due to a portion of retiree health care costs now being paid out of the General Fund versus being fully funded from the Pension Trust Fund, as it had been in previous years. In addition, the City established a Retiree Health Care Special Revenue Fund that is initially funded with a \$250,000 General Fund transfer during the June 30, 2003 fiscal year end (see subsequent comment).

The City will continue to face significant financial challenges in its 2004 fiscal year. As discussed later in this communication in the State Shared Revenue and Property Tax Assessment Cap comments, both the State's revenue shortfall and the limited growth in existing property taxable values, due to Proposal A, will continue to have a negative impact on General Fund revenue. The City should consider developing multi-year operational and capital plan forecasts using alternative scenarios the City could expect to incur. By preparing plans under different scenarios, the City will be better equipped to respond to expected and unexpected short-term and long-term financial constraints.

STATE SHARED REVENUE

The City will continue to feel the effects of the slow down in the State's economy. State shared revenue accounts for approximately 24% of the City's total General Fund revenue. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue sharing payments to local units of government) and the State's current budget problems, which have resulted in additional appropriation reductions to the revenue sharing line item in the State's budget, revenue sharing payments for the State's fiscal years ending September 30, 2002 and 2003 were less than originally projected.

The previous Governor's original budget recommendation for fiscal year 2002/2003 was to keep total revenue sharing payments to cities, villages, townships, and counties constant (or frozen) at the fiscal year 2001/2002 level. This recommendation would have resulted in a reduction of approximately \$112 million from what the statutory formula would have otherwise allowed. As was well publicized, following the introduction of the previous Governor's fiscal year 2002/2003 budget there was an attempt in July 2002 to eliminate all statutory revenue sharing from the State's 2002/2003 budget. This attempt was not successful and was overridden via a veto by the Michigan Legislature. However, in December 2002, revenue sharing was cut another \$53 million by an Executive Order of the previous Governor.

The budget presented by the new Governor included an overall reduction to revenue sharing payments of 3 percent from the estimated payments for the State's fiscal year ending September 30, 2003. This version of the budget was ultimately adopted by the Michigan Legislature. While the State's budget has been approved for their 2003/2004 fiscal year, it included several very significant assumptions which have not been fully realized. The State Revenue Estimating Conference in October of 2003 addressed these shortfalls and the Governor is currently attempting to remedy the shortfall. Additionally, it is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state shared revenue, as this line item in the State's budget remains vulnerable. The City of Garden City's projected revenue sharing for fiscal year ended June 30, 2004 is

STATE SHARED REVENUE (CONT.)

estimated to be approximately \$3,600,000 with the incorporation of the Governor's proposed fiscal year 2003/2004 budget.

We will continue to update the City as developments occur.

PROPERTY TAXES

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and in 2003 is at its lowest level in ten years as follows:

2003	1.5%	1998	2.7%
2002	3.2%	1997	2.8%
2001	3.2%	1996	2.8%
2000	1.9%	1995	2.6%
1999	1.6%	1994	3.0%

The 2002 inflation factor is being used for property taxes levied in the City's fiscal year ended June 30, 2003. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is involved in any long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation. For the year ended June 30, 2003, the City's Headlee maximum property tax rate for its operating levy was 14.2918 mills even though City Charter would allow the City to levy 18.00 mills for operations. As indicated, due to the passage of Proposal A, the City will not be allowed to "roll up" to 18 mills. If the City requires additional mileage capacity for operations, then a Headlee override vote would be necessary to levy the mills that are authorized in City Charter.

OPERATIONAL ITEMS

CAPITAL ASSETS

With GASB 34 now fully implemented, it is essential that the City continues to track and record all capital asset activity along with the related depreciation on an annual basis. The fixed asset listing was thoroughly reviewed and updated by City personnel in the current year. Going forward the City should adhere to its minimum policy threshold when capitalizing assets and keep a detail list of acquisition and disposition activity during the year. This will streamline the effort needed by the City to report their capital assets in the annual financial statements and assist with capital budget and property insurance planning.

DEBT REFINANCING

With current decreased interest rates, the City should, and is considering whether the refinancing of existing debt would provide a net economic benefit. We would be happy to assist the City with a review of its current debt service structure, including the cost of refinancing debt, to help quantify potential cost savings to the City.

SEGREGATION OF DUTIES

The concept of "internal control structure" relates to the system of checks and balances intended to safeguard assets and ensure reliability of the accounting data. The City's policies and procedures that have been put into place, the accounting system, and the environment that the City operates in all interact and together form the internal control structure. In performing our testing within the payroll department, we noted that, due to staff constraints, there appears to be a lack of proper segregation of duties. One individual is responsible for keeping all payroll data, check preparation, check printing, check disbursement, and receives access to the check signing plate. In addition, it was noted that two other individuals have access to the check signing plate. The control structure is similar for the accounts payable/cash disbursement system. The City's Deputy Treasurer does, however, review the payroll and check registers in order to address anything unusual items. The City should review responsibilities within these departments and revise accordingly to improve existing controls. This would include ensuring that individuals who have access to the check signing machine do not have data input responsibilities nor the ability to generate checks. The City should also limit the number of individuals who have access to the check signing machine.

COMPENSATED ABSENCE BALANCES

It appears certain labor groups have accumulated compensation carryover balances greater than the allowable amount per labor contract. We communicated this to City Management during the audit and the City is currently investigating and working to resolve this issue.

WATER AND SEWER FUND

An important aspect of any control system is a periodic review of the records supporting the balances represented on the City's general ledger. One of the largest assets in the City's Water and Sewer Fund is customer receivables. The City should strongly consider establishing a formal policy where the general ledger customer receivables balance is reconciled with the subsidiary listing on a regular (at least quarterly) basis.

AGENCY FUNDS

As mentioned in the prior year, there are certain general ledger accounts with balances that have not changed in several years. In addition, this fund maintains approximately 100 accounts balances. The City should evaluate the number of accounts needed to maintain the agency fund information including analyzing the existing balances, documenting the support for those balances and consolidating information where appropriate. In addition, with the implementation of GASB 34, the Agency Fund cash and investments are no longer reported in the Governmental Funds Balance Sheet. To the extent that any money within the Agency Fund is due to the City, the City should transfer those assets into the appropriate City fund.

EMPLOYEES RETIREMENT SYSTEMS

As mentioned in the prior year, employee post-retirement health care benefits have been historically funded through the City of Garden City Employees' Retirement System in accordance with Public Act 28 of 1966. As defined in the Act, funding of post-retirement health care benefits is limited to net investment income in excess of an actuarially determined limit. City Management, in conjunction with the City's actuary, performed a calculation during the current year and it was determined that the City's General Fund would be responsible for post retirement health-care costs totaling approximately \$960,000. With the limited investment return experience of recent years, the City must analyze the long term impact of this cost on the General Fund.

COMPUTER ISSUES AND SECURITY ASSURANCE

The City should consider security assurance of the current computer system. As you know from numerous recent, highly publicized events, network and system security is becoming increasingly important to all enterprises. An organization's data assets are such that their loss or impaired usage can have devastating consequences on City operations. As a result, we strongly recommend that the City assess its information systems network environments and develop strategies to ensure that risks associated with down time, hacker intrusions and virus attacks are minimized in a secured environment. We believe that it is prudent to annually assess the City's risk and implement security improvements to avoid the negative implications.

LEGISLATIVE AND OTHER MATTERS

Electronic Funds Transfers (ACH payments)

Recently, Public Act 738 was passed, which allows local units of government to make and accept electronic funds transfers (ACH payments), if the local unit adopts a formal policy. While local units of government may have already been using the ACH system for payroll tax remittances and for the direct deposit of payroll, this new law requires a policy to be adopted.

Beginning immediately, a local unit's governing body may need to adopt a policy on ACH arrangements that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows:
 - describe the goods or services purchased,
 - the cost,
 - date of payment, and
 - the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

City management should discuss these requirements with legal counsel before formally adopting the City's policy.

Telecommunications Act Revenue

Local units of government had until May 9, 2003 to notify the State that they were "opting in" to new Telecommunications Act. The City did opt in and did receive its first payment from the METRO Authority by July 2003 for approximately \$17,850. The first payment was for a partial year and at a prorated rate. The second and future payments should be much larger as they will be based on a full year and at the standard rate. Checks for the second payment will be distributed in the Spring of 2004. If the state actually collects its projected amounts, the City could expect to receive approximately \$98,000 to \$113,000 for the fiscal year ending June 30, 2004. The City should continue to monitor its' projected revenue based on the State's revenue level. The City is required to spend the money received in a manner consistent with the allowable costs under the grant. The City of Garden City has a reporting requirement regarding the use of these funds on an annual basis.

Personal Property Tax

As you are aware, the State Tax Commission approved, several years ago, new personal property tax tables for utilities. The new tables made drastic changes to the valuation of transmission and distribution property of utilities. General estimates are that use of the new utility tables result in approximately a 30% revenue loss on those properties. The City, like many other communities, has elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables. This issue was the subject of several lawsuits brought by various units of government against the State Tax Commission challenging the constitutionality of the new utility personal property tax tables. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. The State is currently in the process of determining how refunds will be made on appeals filed by the utilities pending the final resolution of this matter. The City has conservatively estimated the amount of potential refunds in it's June 30, 2003 financial statement. We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

Federal Aid from August 2003 Blackout

The State has requested aid from the Federal Government for costs incurred by the State and local governments as a result of the August 2003 blackout. Specifically, emergency monies were requested to reimburse Michigan governmental units for overtime for public safety and transportation workers and other out-of-pocket costs associated with the blackout. The City has identified its incremental costs associated with the blackout in the event that the State is successful in receiving emergency funds from the Federal Government. It is expected that if emergency funds are received by the State, local units will be allowed to submit claims for reimbursement consideration.

New Homestead Audit Program

Public Act. 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information in order to determine if a resident is illegally claiming a homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. The Michigan Department of Treasury will soon publish additional guidance related to this new law.

Municipal Finance Act Revisions

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities are now required to submit a qualifying filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's or Authority's year end and is effective for one year thereafter.

We would like to thank City Administration, Treasury and other departmental staff for the courtesy and cooperation extended to us during this years engagement. If you have any questions regarding this letter, please feel free to contact us.

Very truly yours,

PLANTE & MORAN, PLLC



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